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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 002283

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SUBJECT: KMT ECONOMIC PLATFORM STRESSES DOMESTIC GROWTH

REF: TAIPEI 2193

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Classified By: Stephen M. Young, AIT Director, for reasons 1.4 (b) and (d).

11. (U) This cable is one of a series on the Taiwan presidential candidates' economic policies and advisors.

12. (C) SUMMARY. In an October 3 meeting with AIT economic chief, Ma Ying-jeou advisor Yun-Peng Chu previewed the KMT presidential candidate's economic platform, which will target Taiwan voters yet to benefit from booming cross-Strait trade and technology sector expansion. Chu said Ma will emphasize boosting growth through service sector reform and stimulation of domestic investment. Cross-strait opening will not form the core of Ma's economic platform, but will instead be incorporated into a broader agenda stressing jobs and salary growth. Chu identified direct transportation links and tourism as the priority areas for cross-Strait liberalization, and said Ma would likely shift the focus of cross-Strait investment policy from capital restrictions to limits on technology transfer. Elaborating on vice presidential candidate Vincent Siew's views, Chu explained that Siew would favor unilateral trade concessions within an APEC context. Ma plans to outline his economic policies in an October 11 speech. END SUMMARY.

Taiwan's bifurcated economy

13. (C) In Chu's analysis, Taiwan's income distribution remains a bell curve, but "the shape of the bell is changing" and distribution is becoming more unequal. Chu divided the Taiwan economy into two broad categories: a world class technology sector that serves as the main engine for GDP growth, and a stagnant service sector unable to generate significant increases in jobs. The service sector accounts for 72 percent of GDP, he observed, but only 58 percent of employment. Similarly, he continued, Taiwan society is increasingly divided between highly-skilled professionals

linked to the technology sector and/or resident in China, and the relatively unskilled majority who rely on the Taiwan economy, rather than booming trade and investment with the PRC. Chu maintained that wages for university graduates outside the technology sector have actually declined over the past fifteen years, a situation he acknowledged may partially be the result of the relatively higher number of people holding degrees. At the same time, he continued, shortcomings among Taiwan universities make many employers unwilling to pay top dollar for what they perceive as graduates with sub-par skills.

Ma's economic platform to emphasize domestic growth

14. (C) Chu stated that Ma plans to deliver a major economic policy speech at an October 11 Citigroup-sponsored forum in Taipei. Although the presentation is not yet complete, Chu said that Ma will focus on bridging the gap between Taiwan's rich and poor by developing a competitive, labor-intensive service industry in sectors where Taiwan already enjoys an apparent competitive advantage, such as financial services. Chu complained that many Taiwan residents invest their money abroad, and said Ma would like to implement tax and financial regulatory reforms to encourage more domestic investment. He bemoaned the fact that financial sector employment growth has recently turned negative in Taiwan. Ma and his advisors are still discussing whether or not to include medical services among the service sector reform priorities to be outlined in the speech, he added.

15. (C) Previewing Ma's economic campaign message, Chu said Ma will focus on three major themes: growth, equity, and sustainability. "Growth", he explained, will be articulated in terms of creating jobs, while "equity" will be cast as poverty eradication, and "sustainability" will be presented

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as making Taiwan a "beautiful homeland" with strong environmental protection. Policy initiatives in such areas as urban renewal, improved local infrastructure, and better farming conditions will be grouped under these three broad rubrics. In Chu's analysis, Taiwan voters are primarily concerned with jobs and salaries, and the KMT platform is designed to resonate with voters concerned about bread-and-butter domestic economic conditions. "We're not worried about Taiwan businesspeople in China," stated Chu, "because they can take care of themselves." Taiwan must instead focus on developing its domestic economy and limit the ongoing drain of investment and talent to China. Chu expressed the concern that if Ma does not win the election, many pan-Blue voters will psychologically "give up on Taiwan for good" and consider emigrating to China, the U.S., Canada, and other destinations abroad.

Priorities for cross-Strait opening

16. (C) Chu emphasized that differences on cross-Strait economic policy "should not be delivered as if it's the only economic difference that Ma has with (DPP presidential candidate Frank) Hsieh." Echoing the approach outlined by KMT vice presidential candidate Vincent Siew during his September 26 meeting with the Director (reftel), Chu said he advises Ma not to make cross-Strait economic issues the centerpiece of his campaign platform, but instead to package economic opening to China as part of a comprehensive economic growth package that plays to Taiwan residents' concerns about their economic status. Chu agreed with Siew's emphasis on stimulating domestic demand (reftel) as the key factor in boosting Taiwan's economic growth.

17. (C) According to Chu, Ma is "cautious" about opening too rapidly to the Chinese economy. He explained that the "common market" concept sometimes identified with Ma's cross-Strait economic policy is in fact a Vincent Siew

"slogan" that was used to set up Siew's Cross-Straits Common Market Foundation think tank, and the campaign has no plans for anything as sweeping as an EU-style common market. On cross-strait investment, Chu argued that current policy places a misguided emphasis on capital, rather than technology. Taiwan companies are now prohibited from investing more than 40 percent of their new worth on the mainland. Ma would revise the limit, said Chu, but would not abolish it altogether. At the same time, he continued, Ma would implement strict regulations on technology transfer from Taiwan investors to Chinese firms.

18. (C) Chu identified direct transportation links and tourism as top priorities for cross-strait liberalization. Taiwan companies are more competitive in cargo, he observed, so the PRC would likely insist on linking cargo and passenger liberalization to help ensure that Chinese passenger airlines are able to benefit from opening the cross-strait market. Chu said that roughly 4 million Taiwan residents travel to China as tourists each year, versus only around 200,000 Chinese visitors to Taiwan, an imbalance that should be redressed.

Emphasis on regional free trade

19. (C) Elaborating on his understanding of Vincent Siew's trade vision for Taiwan, Chu explained that Siew's philosophy is marked strongly by Taiwan's experience after its departure from the UN in the early 1970s. As Taiwan's formal diplomatic relations dwindled, Taiwan had to renegotiate many of its existing bilateral trade and economic agreements. During this period, Taiwan sometimes chose to lower tariffs unilaterally as a means of facilitating negotiations. Chu said that Siew continues to favor unilateral trade liberalization. In order to be consistent with Taiwan's WTO MFN obligations, however, such liberalization would be pursued under APEC auspices. Since APEC has formally endorsed a free trade area, Taiwan would be able to give

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special trade concessions to other APEC members, while remaining consistent with WTO regulations. Note: Taiwan would presumably not be able to offer these tariff concessions until the APEC free trade structure is formalized. This may take many more years into the future.

110. (C) COMMENT. Assuming Ma's public line hews closely to the path outlined by Chu, it looks as though the KMT candidate is focusing on public concern about Taiwan's overall economic performance while downplaying his more politically sensitive cross-strait liberalization agenda. Chu's comments about the Taiwan economy's relative strengths and weaknesses track with views expressed by many private sector observers: Much of Taiwan's economy, particularly the service sector, is not keeping pace with the burgeoning technology industry. END COMMENT.

111. (SBU) BIOGRAPHIC DATA: Chu was born on August 17, 1953, and is originally from the Taipei area. He holds a doctorate in economics from the University of Maryland (College Park), and spent a year at Stanford University in the late 1980s. His past positions include research fellow at the Academia Sinica, and Commissioner of the Fair Trade Commission. He now serves as Professor of Economics, School of Management and Director of the Research Center for Taiwan Economic Development at National Central University, and is also the founder of the Asia-Pacific New Economy Association (APNEA). In addition, Chu serves as Vice Chairman of the Technology and Economy Committee at the National Policy Foundation, a KMT-funded think tank. Chu speaks fluent English. He has two children: a son in junior high school, and a daughter.
YOUNG